

# **Legislative Audit Division**

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**State of Montana**



**Report to the Legislature**

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**December 1997**

## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 1997**

## **Montana Department of Transportation**

**This report contains seven recommendations relating to:**

- ▶ **Improving procedures to monitor state and federal funds provided to subrecipients.**
- ▶ **Updating procedures and maintaining documentation for equipment rental rates and federal questioned costs in equipment rental rates.**
- ▶ **Improving controls over collection of revenues related to outdoor advertising and Motor Carrier Services Division permitting function.**
- ▶ **Improving procedures for recording financial information on the state's accounting system.**

**Direct comments/inquiries to:  
Legislative Audit Division  
Room 135, State Capitol  
PO Box 201705  
Helena MT 59620-1705**

## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
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Legislative Audit Division  
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Jim Pellegrini, Performance Audit  
James Gillett, Financial-Compliance Audit

December 1997

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Transportation's financial activity for fiscal years 1995-96 and 1996-97. Our report contains seven recommendations where the department can improve procedures over monitoring state and federal funds provided to subrecipients, revenue collections related to outdoor advertising and Motor Carrier Services Division permitting function, recording financial information on the state accounting system, and compliance with A-87 for costs included in equipment rental rates. The department's written response to audit recommendations is included in the back of the report.

We thank the director and department personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

"Signature on File"

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 1997**

## **Montana Department of Transportation**

Members of the audit staff involved in this audit were Jody Brandt, Frieda Houser, Scott Hoversland, Wayne Kedish, and Paul J. O'Loughlin.

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## Appointed and Administrative Officials

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### Montana Transportation Commission

		Term Expires <u>in January</u>
Thorm Forseth, Chairman	Billings	2001
Ed Smith, Vice Chairman	Dagmar	1999
Dan Larson	Libby	1999
Patricia Abelin	Bozeman	2001
Robert McKenna	Helena	2001

### Aeronautics Board

Ron Mercer, Chairman	Helena	2001
Byron Bayers	Twin Bridges	2001
Fred Booth	Fort Benton	2001
Will Metz	Laurel	2001
Leland Ford	Big Fork	1999
Douglas Freeman	Hardin	2001
Robert Hector	Billings	1999
Joann Eisenzimer	Cascade	1999
Arnold Lindberg	Cut Bank	1999

### Department of Transportation

#### Administration Officials

Marvin Dye, Director  
 Jim Currie, Chief of Staff  
 Russ McDonald, Administrator, Human Resources  
 Tim Reardon, Chief Counsel, Legal Services  
 Joel Marshik, Chief, Environmental Services  
 Bill Salisbury, Administrator, Administration Division  
 Mike Ferguson, Administrator, Aeronautics Division  
 Gary Gilmore, Administrator, Engineering Division  
 John Blacker, Administrator, Maintenance Division  
 David Galt, Administrator, Motor Carrier Services Division  
 Patricia Saindon, Administrator, Transportation Planning Division

#### District Administrators

Jim Weaver - Missoula  
 Jason Giard - Butte  
 Gene Stettler - Great Falls  
 Mick Johnson - Glendive  
 Bruce Barrett - Billings





### **Department of Transportation**

This report contains the results of our financial-compliance audit of the Department of Transportation for the two fiscal years ended June 30, 1997. We issued an unqualified opinion on the financial schedules presented in this report. This means the reader may rely on the presented financial information and the supporting detailed information on the Statewide Budgeting and Accounting System.

The report contains seven recommendations directed to the department. Four recommendations relate to: state and federal compliance which involve issues of monitoring federal and state funds provided to subrecipients; inclusion of replacement cost in equipment rate; and providing accurate information to the Department of Administration related to Cash Management Improvement Act of 1990.

Two recommendations relate to improving internal controls over outdoor advertising revenues and Motor Carrier Services Division's permitting function.

The remaining recommendation relates to improving procedures for recording revenues and expenditures on the state's accounting records and establishing administrative rules addressing fuel taxes and motor pool regulations in accordance with state laws.

## Report Summary

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The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the department develop and implement procedures to:  A. Monitor all state and federal funds subgranted to ensure they are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements.  B. Inform subrecipients of audit requirements for entities receiving federal awards.  C. Ensure subrecipients are provided with the amount of state and federal funds, federal program name, and catalog of federal domestic assistance number to facilitate compliance with federal regulations. . . . . 9  <u>Department Response:</u> Concur. See page B-4.
<u>Recommendation #2</u>	We recommend the department revise and implement written procedures for equipment program rate calculations in the Internal Service Fund and maintain documentation which supports the rate calculations. . . . . 11  <u>Department Response:</u> Concur. See page B-5.
<u>Recommendation #3</u>	We recommend the department report the actual date of receipt of federal funds to the Department of Administration. . . . . 12  <u>Department Response:</u> Concur. See page B-5.
<u>Recommendation #4</u>	We recommend the department establish controls over outdoor advertising sign permits and fee collection. . . . . 14  <u>Department Response:</u> Concur. See page B-5.
<u>Recommendation #5</u>	We recommend the department:  A. Issue separate identification numbers to each department employee selling MCS permits.  B. Enforce deposit requirements required in state law. . . . . 15  <u>Department Response:</u> Concur. See page B-6.

Recommendation #6

We recommend the department:

- A. Follow established procedures to properly record revenues and expenditures.
- B. Improve procedures to record expenditures in the proper fiscal year and in the correct program.
- C. Record financial activity for state operations in the proper fund. . . . . 18

Department Response: Concur. See page B-6.

Recommendation #7

We recommend the department:

- A. Issue Administrative Rules addressing fuel taxes.
- B. Issue Administrative Rules required by section 2-17-423, MCA, or seek legislative changes to allow motor pool regulations to be set forth in state policy. . . . . 21

Department Response: Concur. See page B-7.

# Introduction

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## Introduction

We performed a financial-compliance audit of the Montana Department of Transportation (department), for the two fiscal years ended June 30, 1997. The objectives of the audit were to determine if:

1. The department complied with applicable state and federal laws and regulations during the audit period.
2. The department's administrative and accounting controls were effective for the audit period.
3. The department's financial schedules present fairly the department's changes in fund balances and results of operations for the two fiscal years ended June 30, 1997.
4. The department implemented prior audit recommendations.

In accordance with section 5-13-307, MCA, we analyzed the costs to implement the recommendations in this report and believe the cost is not significant. Areas of concern deemed not to have a significant effect on the successful operations of the department's programs are not specifically included in the report but have been discussed with management.

We performed procedures to evaluate charges for services for costs incurred in the Internal Service Fund as required by section 17-8-101(6), MCA, and found the charges and fund equity to be reasonable for the operations in this fund except for the issue on page 11.

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## Background

The Montana Department of Transportation is responsible for coordinating, implementing, and managing state policy and planning for highway, rail, and air transportation. The department is primarily responsible for the planning, construction, improvement, repair, and maintenance of state highways and federal aid system highways. The department also collects revenue and enforces Gross Vehicle Weight and Motor Fuel Tax laws and regulations.

Effective July 1, 1995, the Highway Traffic Safety Program was transferred from the Department of Justice. The Highway Traffic Safety Program advises and assists the governor in matters of

## Introduction

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highway safety, develops training programs, and gathers data to determine causes of accidents and prevention methods.

The department is under the direction of the Transportation Commission (commission) and the director. The commission is composed of five members appointed by the governor and confirmed by the senate for four year terms. The commission determines construction priorities, selects construction projects, and allocates funding to state, local, and national highway system projects. It also classifies highways as federal aid, primary, and off system in the state maintenance system. The commission may delegate certain functions to the director, who is appointed by the governor and confirmed by the senate.

The department had approximately 1,900 full-time equivalent positions during fiscal year 1996-97. Total expenditures and transfers-out were \$392,071,099 in fiscal year 1995-96 and \$396,218,025 in fiscal year 1996-97. The department's primary sources of funding during the audit period were federal funds, motor fuel taxes, and license and permit fees.

During the audit period, department activities were organized under ten programs as described below:

General Operations - provides administrative support services including accounting, budgeting, planning, program development, research, legal services, computer processing, and personnel. The administration division enforces compliance with motor fuel tax law and collection of taxes on gasoline and diesel fuel.

Construction - is responsible for project planning through actual project construction. This includes designing construction projects, acquiring right-of-way, processing projects for contract award, and administering construction contracts. Personnel in five districts (Billings, Butte, Glendive, Great Falls, and Missoula) and in Helena supervise and monitor work done by private contractors until a project is completed.

Maintenance - is responsible for preserving and maintaining the state's highway systems and its related facilities.

## Introduction

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Motor Pool - operates and maintains a fleet of vehicles available to state offices and employees in Helena to conduct official business. The cost of services is recovered through user fees.

Equipment - purchases, distributes, and maintains all highway equipment and vehicles for use within the department. The equipment is rented to other programs within the department, primarily construction and maintenance.

Interfund Transfers - established to record the transfer of funds between accounting entities and to the Highway Bond Debt Service Funds.

Stores Inventory - was used to purchase and issue inventory, including office and construction supplies, gravel, sand, road oil, and gasoline, used by department programs throughout the state. Material costs were recovered through charges to the programs which used them. This program was eliminated in fiscal year 1995-96 to eliminate double appropriations. These expenditures are currently recorded directly in the appropriate program.

Motor Carrier Services - enforces statutes and regulations related to vehicle weight, size, licensing, fuel, and safety on the state's highways and collects gross vehicle weight fees.

Aeronautics - provides protection and safety in aeronautics. The division operates the West Yellowstone airport and maintains 12 other state-owned airports. The division also provides technical assistance to communities on constructing or improving airports, enforces pilot and aircraft registration regulations, and maintains a statewide aerial search and rescue organization.

Transportation Planning - provides technical and monetary assistance to local communities and transit authorities for planning, organizing, operating, and funding transportation systems. This program administers federal funds for development and operation of transportation systems and administers the State Rail Plan.



# Prior Audit Recommendations

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## Prior Audit Recommendations

Our previous audit report covering fiscal years 1993-94 and 1994-95 contained 13 recommendations. The department implemented eleven, partially implemented one, and one is no longer applicable to the department. In addition, one recommendation involving the Highway Traffic Safety Division (formerly under the Department of Justice) was reviewed in this audit and was implemented.

The partially implemented recommendation involves the development and revision of administrative rules discussed on page 20.

The recommendation no longer applicable to the department related to a \$110,000 shortfall on the 1983B and 1983A bond payments for the airport loan program. We recommended the department pay the shortfall rather than having it paid by the Department of Administration from the state's General Fund. The department chose to seek the Attorney General's opinion. In July of 1997, the Attorney General held that payment made from the General Fund was the proper source for payment of a shortfall to the bond holders.





# Findings and Recommendations

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## **Monitoring State & Federal Funds Provided to Subrecipients**

The department subgrants some state and federal funds to other entities. Federal regulations require the department monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. The department is also required to review the results of audits of subrecipients as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings. Although these regulations pertain to federal awards, the department should also monitor for compliance requirements related to state funds subgranted. During our audit we noted concerns related to the department's monitoring of state and federal funds provided to subrecipients.

The Department of Commerce Local Government Services Bureau (LGS), ensures local governments receive required audits. LGS personnel review audit reports completed by private audit firms for documentation indicating the local government is in compliance with state and federal laws and regulations. LGS notifies state agencies of instances of noncompliance. The state agency can use this information to determine if those issues require additional follow up. We noted LGS sent letters to the department regarding compliance issues related to state fuel tax allocations and federal awards. We were unable to determine who in the department received or followed up on some of the letters. We reviewed letters LGS sent to the department from December in 1993 through July 1997 covering audits with periods ending June 30, 1992 through June 30, 1996 and noted the following issues.

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## **Monitoring Compliance with State Law**

Section 15-70-101, MCA, allocates \$16,766,000 of fuel tax revenue each fiscal year to eligible local governments and restricts the use of these funds to construction, reconstruction, maintenance, and repair of roads and streets. There were seven issues in the local government audit reports related to the use of fuel tax allocation regarding:

1. One county charged architectural fees on a building to its fuel tax fund. The charge was adjusted out of this fund into the general fund of the county as a result of the county audit.

## Findings and Recommendations

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2. One county did not separately identify the fuel tax funds from other county funds.
3. Section 15-70-101(3), MCA, states no more than 25 percent of fuel tax revenues can be used for capital outlay. One county's capital outlay expenditures were 49 percent of fuel tax revenues.
4. Four counties did not obtain bids for repair projects in accordance with state law. Section 15-70-101 (4), MCA, requires all fuel tax allocated to local governments must be disbursed to lowest responsible bidder according to applicable bidding procedures when contracts for construction, reconstruction, maintenance, or repair are in excess of \$4,000. City and county officials stated they were not aware of the bid requirement to seek bids for projects over \$4,000 or stated they followed other state law limits.

State and federal laws make it unlawful for state fuel tax funds committed to transportation projects to be used for other purposes. The department has an obligation to monitor the use of the fuel tax funds allocated to local governments because diversions or improper uses of the allocated funds could jeopardize federal highway funds.

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### Accountability for Monitoring Federal Funds Subgranted

During our fieldwork, the department was unable to provide us with a list of federal funds it subgranted during the audit period, the employees responsible for monitoring the subgrants, and evidence the department received and reviewed required audit or monitoring reports. We reviewed LGS letters to the department and noted federal issues related to funds received from U.S. Department of Transportation related to Highway Planning and Construction - Community Transportation Enhancement (CFDA #20.205) and State and Community Highway Safety (CFDA #20.600) Programs. When we contacted department officials who received the LGS letters to determine what follow up was conducted, we were told they received the findings and resolved any issues outstanding but did not document the review. We found evidence the department monitors some federal awards to subrecipients through site visits and various other means. Without a system to monitor all subgrants, the department lacks assurance the funds were spent in accordance with the terms of the contract and the subrecipients complied with federal regulations.

## Findings and Recommendations

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We reviewed a number of contracts subgranting funds to other entities and noted the department did not provide the amount of state and federal funds, the federal catalog name, or the catalog of federal domestic assistance (CFDA) number to the subrecipient. The subrecipient needs this information in order to comply with federal reporting requirements. In addition, we noted the department does not inform the subrecipient that if they receive \$300,000 or more in federal awards they are required to have a single audit or program specific audit completed in accordance with federal regulations.

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### Summary

The department needs to establish a system outlining to whom state and federal funds are subgranted, the amount, and the department employee responsible for ensuring compliance with state and federal laws and regulations related to the subgrants. Without adequate control procedures, the potential exists for noncompliance issues to go unresolved. The department should also ensure the department employee assigned to monitor the subgrant receives and reviews required audit reports or LGS letters and documents the resolution of any issues relating to state or federal funds subgranted.

#### **Recommendation #1**

**We recommend the department develop and implement procedures to:**

- A. Monitor all state and federal funds subgranted to ensure they are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements.**
- B. Inform subrecipients of audit requirements for entities receiving federal awards.**
- C. Ensure subrecipients are provided with the amount of state and federal funds, federal program name, and catalog of federal domestic assistance number to facilitate compliance with federal regulations.**

## Findings and Recommendations

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### **Internal Service Fund- Equipment Rental Rates**

We reviewed the rental rates established by the department's equipment program for fiscal years 1995-96 and 1996-97. We noted areas where the department could improve procedures for documenting and supporting the rate calculations.

Included in the equipment program's rate calculation is a provision for increased costs of replacement equipment. Federal regulations do not allow for equipment replacement provisions when calculating rental charges. In addition, section 17-8-101(6), MCA, requires fees to be commensurate with costs. Equipment costs should be recovered through depreciation and funds for increased costs of new purchases should come from resources other than user rate charges. A portion of the costs for equipment was charged to the U.S. Department of Transportation, Highway Planning and Construction Grant (CFDA #20.205). Because replacement costs are not allowed, we question costs of \$44,668 and \$58,971 in fiscal years 1995-96 and 1996-97, respectively.

Department personnel have developed written procedures for determining the rental rates. In some instances amounts used in rate calculations were supposed to be from the Statewide Budget and Accounting System (SBAS), but we could not verify these amounts to SBAS. In addition, we noted errors in calculating the profit or losses in the previous year used in calculating the rental rate for the next year. We also noted that department personnel appropriately calculated estimated depreciation and estimated assigned hours for use in the rate calculation; however, in some cases they did not use the calculated number when determining the rental rate.

Department personnel stated they sometimes used estimates rather than the SBAS amounts required in the written procedures to achieve more accurate rate calculations. Department personnel did not document the source of information or maintain support for amounts used. In addition, mistakes were made in calculations or when entering the calculated amounts in the rental rate formulas. The errors in the above paragraph were insignificant and would not have resulted in material adjustments to the rental rates; however, the potential exists for errors, if significant, to result in excessive profits or losses in the program.

## Findings and Recommendations

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### **Recommendation #2**

**We recommend the department revise and implement written procedures for equipment program rate calculations in the Internal Service Fund and maintain documentation which supports the rate calculations.**

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### **Federal Cash Management**

The state of Montana has an agreement with the U.S. Secretary of the Treasury which sets forth the terms and conditions agreed to by the state of Montana and the federal government to implement the federal Cash Management Improvement Act of 1990 (CMIA). The agreement establishes a federal cash request schedule based on warrant clearing patterns for large federal assistance programs in the state of Montana. Included under the CMIA agreement is the U.S. Department of Transportation, Highway Planning and Construction Grant (CFDA #20.205), from which the department receives most of its federal funding.

We reviewed the department's procedures for requesting federal funds in accordance with the CMIA agreement and noted the department does not provide Department of Administration with the date federal funds are actually received. Department personnel stated they use an estimated date from the department's billing system report as the reception date of federal funds. This date is a computer generated estimate based on the assumption that federal funds will be received one day after the request date. Due to timing and day of the request the reception date could vary. The actual date of receipt of federal funds can be obtained from the department's Accounting Services Bureau.

The Department of Administration is required to complete the annual interest calculation report for the state of Montana. This includes ensuring the department did not draw federal funds too early or federal funds were not received late. Discrepancies in timing of cash requests or disbursements may result in either interest due to or due from the federal government. If inaccurate information is furnished, the Department of Administration is unable to properly determine compliance with the CMIA agreement. This

## Findings and Recommendations

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concern could be eliminated by providing the actual date federal funds were received to the Department of Administration.

### **Recommendation #3**

**We recommend the department report the actual date of receipt of federal funds to the Department of Administration.**

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### **Monitoring Outdoor Advertising Revenues**

The Montana Outdoor Advertising Act (Act) was passed by the Montana Legislature to comply with federal regulations imposed by the Congress in the Highway Beautification Act. These laws control and limit signs along interstate and primary highways. The 1995 Legislature changed the fee structure which resulted in a revenue increase from approximately \$12,300 in fiscal year 1995-96 to approximately \$146,000 in fiscal year 1996-97. In reviewing the processes for billing and collection, we noted the following areas where the department should improve procedures and management monitoring.

We asked department personnel in June of 1997 how they monitored permit revenues. Department personnel provided us with a listing of the signs by district. In reviewing the first six pages of the 249 page listing, we noted 73 of the 78 listings indicating sign renewals were up to three years delinquent. Management said the sign data base was not updated to show payments received. The department does not have an effective method of monitoring its outdoor advertising sign permits or its collection of permit fees.

Current system weaknesses are described below:

- The advertising sign inventory data base that is used to monitor sign permitting and fee collection is not accurate as noted above. Department officials stated right-of-way agents are not updating it to indicate permits have been paid.
- The system creates an invoice for each sign that is due or past due based upon the inaccurate data. This results in sign owners being billed for sign permits which have been paid and are current or right-of-way agents sorting through invoices to

## **Findings and Recommendations**

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determine which invoices are invalid prior to forwarding them to the sign owners. Each agent must maintain his or her own records to eliminate incorrect invoices.

- The current system does not create statements which bill sign owners for multiple signs on one billing document. This results in sign owners receiving multiple billings from the department.
- The current system does not establish or track the amount due from a sign owner and monitor the receipt of amounts due so follow-up on late payments can be effectively pursued by department management. Each right-of-way agent is responsible for monitoring and collecting delinquent accounts. Department management has not established a system to determine if agents are consistently or effectively performing this collection function. Having the agents handle billings and collections without any oversight increases the risks for payments to be misappropriated.
- Department officials stated it is inefficient to have 17 agents performing billing and collection functions and each maintaining their own tracking systems to accomplish this function. Officials also stated each agent's effectiveness in billing and collection is affected by his other right-of-way duties and the priority placed on this task.

The department should establish controls that maintain an accurate inventory of outdoor advertising signs; ensures all signs are established, maintained, and permitted in accordance with state law; all permit fees are collected on a timely basis; and appropriate corrective action is taken when violations or non-payment occurs.

Department personnel said the process for billing and collections was established long ago and the current system for recording data is antiquated. Furthermore, delays occurred in analyzing the sign program processes because it was initially placed under the department's Right-of-Way Division, moved to the Director's Office, and then back to Right-of-Way Bureau. Department management indicated a new system and procedures are being developed which will allow for immediate input of sign data, generate billings, and provide monitoring functions for billings and collections.



## Findings and Recommendations

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### **Recommendation #4**

**We recommend the department establish controls over outdoor advertising sign permits and fee collection.**

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### **Motor Carrier Services Controls Over Permitting and Cash Receipts in District and Area Offices**

To enhance customer service, area and district offices sell permits for Motor Carrier Services Division (MCS). The employees in these offices are not MCS officers or employees. We noted areas where the department can improve controls over permitting and cash receipts at the district or area offices as noted below.

Each MCS officer has a badge number for identification when processing transactions. The officers work out of weigh stations or in roving patrols. The employees in district and area offices are not issued badge numbers because they are not MCS officers. We found three employees at each of two area offices were using the same identification number when recording permit sales. Separate identification numbers would allow management to identify responsible parties when reviewing transactions.

We noted one area office was depositing permit receipts on a weekly basis despite the fact that deposits may have been required daily to comply with state law. Section 17-6-105(6), MCA, requires a deposit each day when the total amount of coin and currency exceeds \$100 or total collections exceed \$500. Deposits are to be made at least weekly. Adherence to these procedures reduces potential for lost or stolen funds.

The department has developed and implemented control procedures over MCS operations. Cooperative efforts by MCS management and area/district office management in addressing these issues will further enhance those procedures. Individuals who are not MCS officers should have an individual identification number to use when processing permits. Permit receipts should be deposited in accordance with state law.

## Findings and Recommendations

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### **Recommendation #5**

**We recommend the department:**

- A. Issue separate identification numbers to each department employee selling MCS permits.**
- B. Enforce deposit requirements required in state law.**

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### **Accounting Issues**

Section 17-1-102(4), MCA, requires state agencies to record on SBAS transactions necessary to show the receipt, use, and disposition of resources in accordance with generally accepted accounting principles. We noted instances related to revenues, expenditures and Agency Fund activity where the department could improve compliance with this state law.

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### **Stores Inventory Program**

To eliminate double appropriations, the Stores Inventory Program was eliminated in fiscal year 1995-96. We noted the following two issues that resulted from the elimination of this program.

- State agencies and local governments purchase fuel from the department. A credit card company collects the revenue for fuel purchased by the state agencies and local governments. The credit card company sends revenue collected to the department. In fiscal year 1995-96, the department recorded cash but stopped recording revenue and expenditures related to fuel purchased by state agencies and local governments. State policy requires an agency to record both the revenues and expenditures related to transactions which are reoccurring in nature.

The department requested clarification from Department of Administration, Accounting Bureau, concerning recording fuel sales revenue and expenditure activity. The response from the Accounting Bureau was that this activity should be recorded on the state's accounting records. As a result, revenues and expenditures are understated by \$118,586 in fiscal year 1995-96. The department corrected fiscal year 1996-97 transactions.

- In fiscal year 1995-96, the department did not reclassify \$242,638 of capital outlay expenditures related to construction projects. Department personnel stated the reclassification of the

## Findings and Recommendations

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expenditures was overlooked during the fiscal year-end closing procedures. As a result, capital outlay expenditures are understated and operating expenses are overstated by \$242,638 in fiscal year 1995-96. The department properly reclassified this activity by fiscal year-end 1996-97.

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### Prior Year Expenditures

- In fiscal year 1996-97, we noted the department recorded \$86,342 of software licenses as prior year expenditures. The purchase order for the licenses was dated August 15, 1996. Since there was not a valid obligation at fiscal year-end 1995-96, the expenditures should have been charged as fiscal year 1996-97 expenditures. Department personnel stated the licenses were part of a large computer equipment purchase and believed the licenses were included under that purchase order.
- In August 1996, the department reclassified various positions in its field offices. We noted one field office charged salaries related to the reclassification through October 1996, as prior year activity. Although it is permissible to charge retroactive pay prior to June 30, 1996 to the previous fiscal year, it is not permissible to charge the current year portion of the retroactive pay to the previous fiscal year. Therefore, salaries of \$9,975 related to July to October 1996 should have been charged as fiscal year 1996-97 expenditures. Department personnel stated the misclassification was an error. As a result, fiscal year 1996-97 expenditures are understated and prior year expenditures are overstated by \$9,975.

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### Expenditures Recorded in Wrong Program

In fiscal year 1996-97, the department recorded on both SBAS and the Property Accountability Management System (PAMS), \$40,784 of computer equipment in the State Motor Pool Program rather than in the Equipment Program. Department personnel detected the error prior to closing and processed a correcting document on SBAS. However, the department missed the PAMS deadline and was unable to process the PAMS document completing the PAMS and SBAS transactions. Had the department been able to process the PAMS document it would have finished the SBAS side of the correcting entry and eliminated the negative nonbudgeted expenditures in the State Motor Pool Program. As a result, equipment expense is understated in the State Motor Pool Program and overstated in the Equipment Program on SBAS by \$40,784, and equipment is overstated in the State Motor Pool Program and understated in the Equipment Program on PAMS by the same amount.

## **Findings and Recommendations**

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### **Expenditure Accrual**

The department recorded a liability for a \$250,000 maintenance project in fiscal year 1995-96. The department issued a confirmation of award for the construction project in June 1996. The confirmation of award stated, "contracts will not be issued to contractors that fail to submit insurance certifications." The confirmation of award also stated upon receipt of the insurance certifications a purchase order would be issued. Since the purchase order was not issued until in July 1996, a valid obligation did not exist and the contract should not have been accrued. As a result, fiscal year 1995-96 expenditures are overstated by \$250,000. Department personnel stated they believed the department had committed funds for the contract due to the confirmation of award; however, the expenditures should not have been accrued prior to having a valid purchase order.

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### **Inappropriate Agency Fund Activity**

The department receives Federal Transit Administration funds for use in purchasing or rehabilitation of vehicles used by local governments or nonprofit organizations for transporting the elderly or developmentally disabled. The federal funds are recorded in a federal special revenue account. Local governments are required to submit their portion of the purchase or rehabilitation costs of vehicles to the department. The department records the local match in a state special revenue account. The department then pays the bill for the cost of the vehicle or repair and maintenance.

In addition to the federal and local funds received for this program, the department received \$50,000 and \$137,000 of General Fund money in fiscal years 1995-96 and 1996-97, respectively, from the Department of Public Health and Human Services (DPHHS). The DPHHS funds were for acquiring vehicles to be used for transportation of the developmentally disabled by corporations under contract with DPHHS. The department recorded these funds in an agency fund.

Section 17-2-102, MCA, states fiduciary funds are used to account for assets held by state government as an agent for individuals, private organizations, or other governments. The department receives applications and determines which local governments will

## Findings and Recommendations

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receive the funds. Since the DPHHS funds are state funds, the activity should not be recorded in an agency fund.

The department should obtain appropriation authority to record revenues and expenditures related to the DPHHS funds for this program. The fiscal year 1995-96 and 1996-97 activity is not reflected on the accompanying financial schedules because of the accounting entries used to record the transactions in the agency fund.

### **Recommendation #6**

**We recommend the department:**

- A. Follow established procedures to properly record revenues and expenditures.**
- B. Improve procedures to record expenditures in the proper fiscal year and in the correct program.**
- C. Record financial activity for state operations in the proper fund.**

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### **Administrative Rules**

In our prior audit report we addressed areas where the department needed to develop administrative rules. The department has made progress in this area; however, during our current audit we noted areas where legislative changes and/or developing rules should be addressed. The following sections discuss our findings.

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### **Gasoline and Vehicle Fuel Taxes**

The Montana Constitution states all executive branch agencies and their respective functions, powers, and duties, shall be specified by law to provide an orderly arrangement in the administrative organization of state government. The Montana Administrative Procedure Act, contained in Title 2, chapter 4 of the Montana Code Annotated, provides a framework for executive branch agencies to meet this constitutional mandate. The primary purpose of the act is to make the rules of the executive branch agencies available to the public in a convenient, current, and concise form. These rules are known as the Administrative Rules of Montana. Each affected

## **Findings and Recommendations**

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agency is responsible for establishing and maintaining administrative rules as required by Montana statute.

The department has addressed two of the four prior audit issues related to outdated rules and rules that had not been issued. The department has updated and resolved inconsistencies between rules and statute for the Board of Aeronautics and fuel distributor security deposits. As discussed below, the department is currently in process of updating the fuel tax rules and has not yet addressed the write-off of fuel taxes, penalty, and interest.

- The department has made progress updating rules related to motor fuels taxes for changes resulting from the 1993 regular and special legislative sessions. Section 15-70-104, MCA, requires the department to establish rules related to motor fuels taxes. Administrative rules for gasoline and special fuels at the distributor level (title 9) have been issued. Administrative rules for specific fuels at the user level (title 10) are still in draft form. Department officials stated public hearings will be held in late 1997 or spring 1998.
- Sections 15-70-105 and 15-71-110, MCA, require the department to adopt rules related to the write-off of motor fuels taxes, penalty, and interest. The department has not issued rules that address these statutory requirements. Rules for the write-off of taxes, penalty, and interest, would inform the public of the process and would ensure all taxpayers are being treated equitably.

We noted one additional area where departmental rules should be established relating to fuel taxes. Section 15-70-352, MCA, applies a 10 percent penalty and one percent per month interest charge to any fuel distributor who is delinquent in filing and paying fuel taxes. This statute allows the department to waive the penalty upon a showing of good cause by the distributor. Although the department follows its internal penalty policy in applying waivers of penalty assessed on distributors who are delinquent, it has not established administrative rules regarding how this statute will be applied to fuel distributors.

The state recently lost a dispute over the waiver of the penalty before the State Tax Appeals Board. The board ruled in favor of the

## **Findings and Recommendations**

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distributor because the department had not set forth its definition of “good cause” or its methodology for waiving the penalty in a form available to the fuel distributors affected by the statute.

Section 15-70-104, MCA, allows the department to adopt, publish, and enforce rules necessary to carry out the provisions of the Chapter 70. Department personnel agreed there should be rules relating to the penalty waiver. Rules for the waiver of the penalty would inform the public of the process and would ensure all fuel distributors are being treated equitably.

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### **State Vehicles & Travel**

Section 2-17-423, MCA, requires the Department of Transportation to establish rules governing:

- A. Employee responsibility for misuse and negligent damage of state-owned or leased vehicles.
- B. Determination of when the use of privately owned vehicles on state business may be justified as in the best interest of the state.
- C. Procedures for determining when a state vehicle is not available for use.

Part 3 of this statute requires the department to establish travel rules providing for:

- A. Filing an application for travel showing necessity for trips, points to be visited, approximate time of departure and return.
- B. Filing a report upon completion of the trip, showing actual points reached, mileage traveled, and car cost data.
- C. Recording in the car operating history record book all items of expense incurred in the purchase of gas, oil, repairs, labor, storage, or service.

Department officials stated no administrative rules have been established in response to the rule requirement in this statute. The department has established motor pool policies that address some, but not all of the requirements. Department officials also indicated most of the requirements are covered in state travel policy promul-

## Findings and Recommendations

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gated by the Department of Administration. The requirements of part three of this statute are either addressed in Department of Administration travel policy, or in the case of item C, would require an unnecessary duplication of the automated motor pool fleet management system.

The rule requirement set forth in section 2-17-423, MCA, appears inconsistent with the purpose of administrative rules. Motor pool usage is internal to state government and does not affect the public. State policy, rather than administrative rule would be a more effective and less costly method of informing state employees of motor pool regulations. Integrating motor pool regulations in state travel policy could ensure consistency and reduce duplication. A statutory change would be required to eliminate the rule requirement.

### **Recommendation #7**

**We recommend the department:**

- A. Issue Administrative Rules addressing fuel taxes.**
- B. Issue Administrative Rules required by section 2-17-423, MCA, or seek legislative changes to allow motor pool regulations to be set forth in state policy.**



# **Independent Auditor's Report & Agency Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel  
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Transportation for each of the two years ended June 30, 1996 and 1997, as shown on pages A-5 through A-16. The information contained in these schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Transportation for the two years ended June 30, 1996 and 1997, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

"Signature on File"

James Gillett, CPA  
Deputy Legislative Auditor

September 26, 1997



DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1996	\$ <u>(113,973)</u> <sup>1</sup>	\$ <u>68,489,216</u>	\$ <u>13,440,425</u>	\$ <u>642,700</u>	\$ <u>42,790,016</u>	\$ <u>2,038,728</u>	\$ <u>240,288</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	1,166,954	372,391,616		120,132	18,383,009		12,863
Nonbudgeted Revenues & Transfers-In		12,962,344	15,562,516		128	52,523	13,052
Prior Year Revenues & Transfers-In Adjustments	2	209,587		498			(405)
Cash Transfers In (Out)	(955,333)	(24,474,169)			(1,292,820)		(13,235)
Direct Entries to Fund Balance		(998,538)		5,000	643,824		
Total Additions	<u>211,623</u>	<u>360,090,840</u>	<u>15,562,516</u>	<u>125,630</u>	<u>17,734,141</u>	<u>52,523</u>	<u>12,275</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	250,000	335,126,590		71,877	18,908,874		
Nonbudgeted Expenditures & Transfers-Out		28,661,230	15,324,183	25,793	(1,107,068) <sup>2</sup>	39,320	13,052
Prior Year Expenditures & Transfers-Out Adjustments		50,467		(6,679)	(1,139,614)		
Total Reductions	<u>250,000</u>	<u>363,838,287</u>	<u>15,324,183</u>	<u>90,991</u>	<u>16,662,192</u>	<u>39,320</u>	<u>13,052</u>
FUND BALANCE: June 30, 1997	\$ <u>(152,350)</u> <sup>1</sup>	\$ <u>64,741,769</u>	\$ <u>13,678,758</u>	\$ <u>677,339</u>	\$ <u>43,861,965</u>	\$ <u>2,051,931</u>	\$ <u>239,511</u>

<sup>1</sup> See note 2 on page A-13.

<sup>2</sup> See note 7 on page A-16.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	General Fund	Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1995	\$ <u>(35,743)</u> <sup>1</sup>	\$ <u>59,929,335</u>	\$ <u>13,848,665</u>	\$ <u>454,542</u>	\$ <u>42,475,177</u>	\$ <u>1,985,856</u>	\$ <u>238,095</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	1,262,663	380,781,111		104,709	15,164,279		14,105
Nonbudgeted Revenues & Transfers-In		12,191,581	15,673,582		3,904	52,872	13,723
Prior Year Revenues & Transfers-In Adjustments		313,184			(14,454)		
Cash Transfers In (Out)	(1,091,093)	(25,403,212)	(27,732)		1,292,819		(11,912)
Direct Entries to Fund Balance		162,529		194,526	25,388		0
Total Additions	<u>171,570</u>	<u>368,045,193</u>	<u>15,645,850</u>	<u>299,235</u>	<u>16,471,936</u>	<u>52,872</u>	<u>15,916</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	249,800	332,105,318		96,122	17,768,200		
Nonbudgeted Expenditures & Transfers-Out		27,845,510	16,054,090	8,286	(1,181,051) <sup>2</sup>		13,723
Prior Year Expenditures & Transfers-Out Adjustments		(465,516)		6,669	(430,052)		
Total Reductions	<u>249,800</u>	<u>359,485,312</u>	<u>16,054,090</u>	<u>111,077</u>	<u>16,157,097</u>	<u>0</u>	<u>13,723</u>
FUND BALANCE: June 30, 1996	\$ <u><u>(113,973)</u></u> <sup>1</sup>	\$ <u><u>68,489,216</u></u>	\$ <u><u>13,440,425</u></u>	\$ <u><u>642,700</u></u>	\$ <u><u>42,790,016</u></u>	\$ <u><u>2,038,728</u></u>	\$ <u><u>240,288</u></u>

<sup>1</sup> See note 2 on page A-13.

<sup>2</sup> See note 7 on page A-16.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>								
Licenses and Permits	\$ 1,166,956	\$ 31,394,394						\$ 32,561,350
Taxes		174,964,147					\$ 12,458	174,976,605
Charges for Services		1,853,481		\$ 6,065	\$ 16,987,892			18,847,438
Investment Earnings		6,116	\$ 386,675			\$ 52,523	13,052	458,366
Fines and Forfeits		165,741						165,741
Federal Indirect Cost Recoveries		18,983						18,983
Sale of Documents, Merchandise and Property		121,969			1,205,329			1,327,298
Rentals, Leases and Royalties		63,747		78,665				142,412
Miscellaneous		388,755		5,733	189,916			584,404
Grants, Contracts, Donations and Abandonments		167,746						167,746
Other Financing Sources		13,484,803	15,175,841	30,167				28,690,811
Federal		162,933,665						162,933,665
Total Revenues & Transfers-In	1,166,956	385,563,547	15,562,516	120,630	18,383,137	52,523	25,510	420,874,819
Less: Nonbudgeted Revenues & Transfers-In		12,962,344	15,562,516		128	52,523	13,052	28,590,563
Prior Year Revenues & Transfers-In Adjustments	2	209,587		498			(405)	209,682
Actual Budgeted Revenues & Transfers-In	1,166,954	372,391,616	0	120,132	18,383,009	0	12,863	392,074,574
Estimated Revenues & Transfers-In	1,275,000	409,040,928		109,700	17,947,600		6,495	428,379,723
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (108,046)	\$ (36,649,312)	\$ 0	\$ 10,432	\$ 435,409	\$ 0	\$ 6,368	\$ (36,305,149)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>								
Licenses and Permits	\$ (108,046)	\$ 196,771						\$ 88,725
Taxes		(3,426,672)					\$ 6,368	(3,420,304)
Charges for Services		233,394		\$ (3,435)	\$ 195,292			425,251
Investment Earnings		1,607						1,607
Fines and Forfeits		65,741						65,741
Federal Indirect Cost Recoveries		2,953						2,953
Sale of Documents, Merchandise and Property		(4,731)			70,329			65,598
Rentals, Leases and Royalties		(14,513)		3,465				(11,048)
Miscellaneous		59,045		(2,267)	169,788			226,566
Grants, Contracts, Donations and Abandonments		(11,474)						(11,474)
Other Financing Sources				12,669				12,669
Federal		(33,751,433)						(33,751,433)
Budgeted Revenues & Transfers-In Over (under) Estimated	\$ (108,046)	\$ (36,649,312)	\$ 0	\$ 10,432	\$ 435,409	\$ 0	\$ 6,368	\$ (36,305,149)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	General Fund	Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 1,262,663	\$ 30,031,657						\$ 31,294,320
Taxes		176,064,694					\$ 14,105	176,078,799
Charges for Services		1,590,526		\$ 9,322	\$ 14,252,784			15,852,632
Investment Earnings		3,120	\$ 415,729			\$ 52,872	13,723	485,444
Fines and Forfeits		112,081						112,081
Federal Indirect Cost Recoveries		11,214						11,214
Sale of Documents, Merchandise and Property		137,735			590,420			728,155
Rentals,Leases and Royalties		70,065		70,075				140,140
Miscellaneous		478,188		8,197	310,525			796,910
Grants, Contracts, Donations and Abandonments		271,718						271,718
Other Financing Sources		12,587,657	15,257,853	17,115				27,862,625
Federal		171,927,221						171,927,221
Total Revenues & Transfers-In	1,262,663	393,285,876	15,673,582	104,709	15,153,729	52,872	27,828	425,561,259
Less: Nonbudgeted Revenues & Transfers-In		12,191,581	15,673,582		3,904	52,872	13,723	27,935,662
Prior Year Revenues & Transfers-In Adjustments		313,184			(14,454)			298,730
Actual Budgeted Revenues & Transfers-In	1,262,663	380,781,111	0	104,709	15,164,279	0	14,105	397,326,867
Estimated Revenues & Transfers-In	1,225,000	428,969,338		120,900	17,695,410		6,641	448,017,289
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 37,663	\$ (48,188,227)	\$ 0	\$ (16,191)	\$ (2,531,131)	\$ 0	\$ 7,464	\$ (50,690,422)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$ 37,663	\$ 437,762						\$ 475,425
Taxes		6,018,598					\$ 7,464	6,026,062
Charges for Services		748,403		\$ 2,322	\$ (2,578,172)			(1,827,447)
Investment Earnings		(1,399)						(1,399)
Fines and Forfeits		(21,919)						(21,919)
Federal Indirect Cost Recoveries		(23,996)						(23,996)
Sale of Documents, Merchandise and Property		(3,696)			(243,484)			(247,180)
Rentals,Leases and Royalties		(14,935)		(16,825)				(31,760)
Miscellaneous		125,294		(3,803)	290,525			412,016
Grants, Contracts, Donations and Abandonments		5,000						5,000
Other Financing Sources		(32,588,773)		2,115				(32,586,658)
Federal		(22,868,566)						(22,868,566)
Budgeted Revenues & Transfers-In Over (under) Estimated	\$ 37,663	\$ (48,188,227)	\$ 0	\$ (16,191)	\$ (2,531,131)	\$ 0	\$ 7,464	\$ (50,690,422)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.



PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	General Operations Program	Construction Program	Maintenance Program	Bonds	State Motor Pool	Equipment Program	Interfund Transfers Program	Motor Carrier Services Div.	Aeronautics Program	Transportation Planning Divisi	Total
Personal Services											
Salaries	\$ 4,149,030	\$ 25,744,992	\$ 19,364,978		\$ 131,000	\$ 3,305,334		\$ 2,944,463	\$ 286,204	\$ 1,897,491	\$ 57,823,492
Other Compensation	403	6,650							2,100		9,153
Employee Benefits	1,212,012	6,165,333	5,646,310		42,594	975,882		753,528	72,869	466,279	15,334,807
Personal Services-Other					1,308	38,518			1,394		41,818
Total	<u>5,361,445</u>	<u>31,916,975</u>	<u>25,011,288</u>		<u>175,500</u>	<u>4,319,734</u>		<u>3,697,991</u>	<u>362,567</u>	<u>2,363,770</u>	<u>73,209,270</u>
Operating Expenses											
Other Services	3,122,287	182,131,199	9,001,317		95,714	819,868		26,104	148,183	1,786,964	197,131,636
Supplies & Materials	664,885	922,778	1,310,189		282,443	3,675,205		46,010	45,168	63,303	7,009,981
Communications	488,233	412,619	235,339		2,373	8,356		99,551	12,274	66,379	1,325,124
Travel	160,834	1,407,296	163,712		117	26,779		106,176	19,864	152,038	2,036,816
Rent	30,266	2,157,499	13,800,376		1,344	5,220		164,459	14,901	58,831	16,232,896
Utilities		49,521	1,884,648		7,233	54,158		46,541	23,568	3,141	2,068,810
Repair & Maintenance	221,140	962,908	10,851,933		46,907	2,437,222		47,537	26,224	2,463	14,596,334
Other Expenses	337,250	322,633	136,414		537,350	4,851,676		133,008	37,212	88,685	6,444,228
Goods Purchased For Resale	46								16,485		16,531
Total	<u>5,024,941</u>	<u>188,366,453</u>	<u>37,383,928</u>		<u>973,481</u>	<u>11,878,484</u>		<u>669,386</u>	<u>343,879</u>	<u>2,221,804</u>	<u>246,862,356</u>
Equipment & Intangible Assets											
Equipment	1,243,494	1,438,338	929,789		(40,783)	(667,140) <sup>2</sup>		48,054	(6,705)	39,301	2,984,348
Intangible Assets	76,016	325,797									401,813
Total	<u>1,319,510</u>	<u>1,764,135</u>	<u>929,789</u>		<u>(40,783)</u>	<u>(667,140)</u>		<u>48,054</u>	<u>(6,705)</u>	<u>39,301</u>	<u>3,386,161</u>
Capital Outlay											
Land & Interest In Land		6,087,013	56,868								6,143,881
Buildings			373,302								373,302
Other Improvements		186,509									186,509
Total		<u>6,273,522</u>	<u>430,170</u>								<u>6,703,692</u>
Local Assistance											
From State Sources									209,828		209,828
From Other Income Sources										250,000	250,000
Total									<u>209,828</u>	<u>250,000</u>	<u>459,828</u>
Grants											
From State Sources	16,787,000	538,945							111,317	715,439	18,152,701
From Federal Sources		160,028								3,021,641	3,181,669
From Other Sources										215,446	215,446
Total	<u>16,787,000</u>	<u>698,973</u>							<u>111,317</u>	<u>3,952,526</u>	<u>21,549,816</u>
Transfers											
Accounting Entity Transfers							\$ 28,660,644 <sup>1</sup>		30,166		28,690,810
Total							<u>28,660,644</u>		<u>30,166</u>		<u>28,690,810</u>
Debt Service											
Bonds	3,298			\$ 15,324							

Unspent Budget Authority	\$ <u>556,861</u>	\$ <u>91,695,801</u>	\$ <u>1,998,497</u>	\$ <u>0</u>	\$ <u>63,292</u>	\$ <u>456,366</u>	\$ <u>0</u>	\$ <u>122,017</u>	\$ <u>84,995</u>	\$ <u>2,641,662</u>	\$ <u>97,619,491</u>
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<sup>1</sup> See note 4 on page A-15.

<sup>2</sup> See note 7 on page A-16.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	General Operations Program	Construction Program	Maintenance Program	Bonds	State Motor Pool	Equipment Program	Interfund Transfers Program	Stores Inventory	Motor Carrier Services Div.	Aeronautics Program	Transportation Planning Divisi	Total
Personal Services												
Salaries	\$ 3,867,262	\$ 24,389,599	\$ 18,313,056		\$ 124,690	\$ 3,137,819			\$ 2,607,604	\$ 259,290	\$ 1,785,899	\$ 54,485,219
Other Compensation		9,100								2,400		11,500
Employee Benefits	955,343	5,911,421	5,590,318		42,285	971,537			690,678	67,269	427,272	14,656,123
Personal Services-Other					2,838	13,847				334		17,019
Total	<u>4,822,605</u>	<u>30,310,120</u>	<u>23,903,374</u>		<u>169,813</u>	<u>4,123,203</u>			<u>3,298,282</u>	<u>329,293</u>	<u>2,213,171</u>	<u>69,169,861</u>
Operating Expenses												
Other Services	3,319,169	187,083,808	9,532,185		94,603	818,644			27,340	166,745	530,493	201,572,987
Supplies & Materials	590,756	1,139,869	1,683,434		220,391	2,855,541			76,930	57,324	88,404	6,712,649
Communications	435,651	383,648	231,936		1,679	9,066			104,835	14,245	55,622	1,236,682
Travel	157,844	1,339,893	144,629		261	25,500			174,688	24,024	147,537	2,014,376
Rent	121,655	1,913,152	11,528,756		5,299	4,675			142,798	16,799	52,707	13,785,841
Utilities	850	37,908	1,762,336		5,395	50,358			50,509	22,786	2,109	1,932,251
Repair & Maintenance	169,095	858,004	11,439,175		35,235	2,161,571		\$ 28,318	52,984	55,885	1,083	14,801,350
Other Expenses	271,668	304,464	164,866		337,109	4,729,274			171,051	56,263	59,871	6,094,566
Goods Purchased For Resale	(495)									8,062		7,567
Total	<u>5,066,193</u>	<u>193,060,746</u>	<u>36,487,317</u>		<u>699,972</u>	<u>10,654,629</u>		<u>28,318</u>	<u>801,135</u>	<u>422,133</u>	<u>937,826</u>	<u>248,158,269</u>
Equipment & Intangible Assets												
Equipment	787,886	2,526,673	1,355,734			509,480			120,695	484	195,447	5,496,399
Livestock												
Intangible Assets	38,505	228,548	2,054								220,500	489,607
Installment Purchases - Equipm	23,000											23,000
Total	<u>826,391</u>	<u>2,778,221</u>	<u>1,357,788</u>			<u>509,480</u>			<u>120,695</u>	<u>484</u>	<u>415,947</u>	<u>6,009,006</u>
Capital Outlay												
Land & Interest In Land		3,988,726	28,179									4,016,905
Buildings			7,962									7,962
Other Improvements		150,673										150,673
Total		<u>4,139,399</u>	<u>36,141</u>									<u>4,175,540</u>
Local Assistance												
From State Sources										208,596		208,596
From Other Income Sources											249,800	249,800
Total										<u>208,596</u>	<u>249,800</u>	<u>458,396</u>
Grants												
From State Sources	16,787,000	377,329								88,334	488,916	17,741,579
From Federal Sources		137,535									2,166,829	2,304,364
From Other Sources											155,357	155,357
Total	<u>16,787,000</u>	<u>514,864</u>								<u>88,334</u>	<u>2,811,102</u>	<u>20,201,300</u>
Transfers												
Accounting Entity Transfers							\$ 27,822,510 <sup>1</sup>			17,115		27,839,625
Total							<u>27,822,510</u>			<u>17,115</u>		<u>27,839,625</u>
Debt Service												
Bonds	2,177			\$ 16,054,090								16,056,267
Installment Purchases		2,835										2,835
Total	<u>2,177</u>	<u>2,835</u>		<u>16,054,090</u>								<u>16,059,102</u>
Total Program Expenditures & Transfers-Out	\$ <u>27,504,366</u>	\$ <u>230,806,185</u>	\$ <u>61,784,620</u>	\$ <u>16,054,090</u>	\$ <u>869,785</u>	\$ <u>15,287,312</u>	\$ <u>27,822,510</u>	\$ <u>28,318</u>	\$ <u>4,220,112</u>	\$ <u>1,065,955</u>	\$ <u>6,627,846</u>	\$ <u>392,071,099</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund											\$ 249,800	\$ 249,800
Special Revenue Fund	\$ 27,504,366	\$ 230,806,185	\$ 61,784,620				\$ 27,822,510	\$ 28,318	\$ 4,220,112	\$ 954,878	6,364,323	359,485,312
Debt Service Fund				\$ 16,054,090								16,054,090
Enterprise Fund										111,077		111,077
Internal Service Fund					\$ 869,785	\$ 15,287,312						16,157,097
Nonexpendable Trust Fund											13,723	13,723
Total Program Expenditures & Transfers-Out	<u>27,504,366</u>	<u>230,806,185</u>	<u>61,784,620</u>	<u>16,054,090</u>	<u>869,785</u>	<u>15,287,312</u>	<u>27,822,510</u>	<u>28,318</u>	<u>4,220,112</u>	<u>1,065,955</u>	<u>6,627,846</u>	<u>392,071,099</u>
Less: Nonbudgeted Expenditures & Transfers-Out		23,000				125,184				8,286	13,723	42,740,558
Prior Year Expenditures & Transfers-Out Adjustments	(79,483)	10,751	(309,727)		(1,306,235)	220	27,822,510			7,169	(117,139)	(888,899)
Actual Budgeted Expenditures & Transfers-Out	<u>27,583,849</u>	<u>230,772,434</u>	<u>62,094,347</u>	<u>0</u>	<u>2,175,800</u>	<u>15,592,400</u>	<u>0</u>	<u>28,318</u>	<u>1,264</u>	<u>4,218,848</u>	<u>6,731,262</u>	<u>350,219,440</u>
Budget Authority	<u>27,904,518</u>	<u>262,970,595</u>	<u>63,189,475</u>	<u>0</u>	<u>2,187,025</u>	<u>15,813,240</u>	<u>0</u>	<u>0</u>	<u>4,370,225</u>	<u>1,168,899</u>	<u>10,712,873</u>	<u>388,316,850</u>
Unspent Budget Authority	\$ <u>320,669</u>	\$ <u>32,198,161</u>	\$ <u>1,095,128</u>	\$ <u>0</u>	\$ <u>11,225</u>	\$ <u>220,840</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>151,377</u>	\$ <u>118,399</u>	\$ <u>3,981,611</u>	\$ <u>38,097,410</u>
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund											\$ 200	\$ 200
Special Revenue Fund	\$ 320,669	\$ 32,198,161	\$ 1,095,128						\$ 151,377	\$ 117,342	3,981,411	37,864,088
Enterprise Fund										1,057		1,057
Internal Service Fund					\$ 11,225	\$ 220,840						232,065
Unspent Budget Authority	\$ <u>320,669</u>	\$ <u>32,198,161</u>	\$ <u>1,095,128</u>	\$ <u>0</u>	\$ <u>11,225</u>	\$ <u>220,840</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>151,377</u>	\$ <u>118,399</u>	\$ <u>3,981,611</u>	\$ <u>38,097,410</u>

<sup>1</sup> See note 4 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

# Notes to the Financial Schedules

## For the Two Fiscal Years Ended June 30, 1997

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### 1. **Summary of Significant Accounting Policies**

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#### **Basis of Accounting**

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The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Expendable Trust Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the costs of employee's annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred, when measurable.

Expenditures and expenses may include entire budgeted service contracts even though the department received the services in a subsequent fiscal year. Expenditures and expenses may also include goods and equipment ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end.

#### **Basis of Presentation**

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The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System without adjustment.

Accounts are organized in funds according to state law. The department uses the following funds:

## Notes to the Financial Schedules

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### Governmental Funds

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. State Special Revenue Funds include the Highway Special Revenue Account, Highway Non-Restricted Account, Petroleum Storage Tank Cleanup Account, Motor Fuel Tax Accounts, and Aeronautics Program Accounts. Department Special Revenue Funds also include federal activity such as Highway Planning & Construction, Federal Transportation Administration Grants, Airport Improvement, Rail Service Assistance and Highway Traffic Safety Programs.

**Debt Service Fund** - to account for accumulated resources for the payment of principal and interest on long term debt. The department uses this fund to account for the Series 1987 Highway Revenue Bonds and the Series 1993 Highway Revenue Refunding Bonds.

### Proprietary Funds

**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the department finance or recover costs primarily through user charges; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The department records activity related to the West Yellowstone Airport in the Enterprise Fund.

**Internal Service Fund** - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include the State Motor Pool Account and the Highway Equipment Account.

### Fiduciary Funds

**Trust and Agency Funds** - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department Fiduciary Funds include Expendable Trust Funds and Nonexpendable Trust Funds.

## Notes to the Financial Schedules

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**Expendable Trust Funds-** are for the Woodville Highway Trust Account and the Rail Construction Trust Account. The Woodville Trust accounts for proceeds and interest earned from the sale of a section of highway to the Anaconda Company. The department is holding these monies in trust with the intent they be used to improve Butte-Silver Bow area roadways. The Rail Construction Trust was established in 1993 due to a settlement agreement with the Burlington Northern Railroad Co. under guidelines set forth by the Federal Rail Administration. Interest earnings from the fund can be used for rail rehabilitation projects in the state in accordance with federal regulations as outlined in the Local Rail Freight Assistance Program.

**Nonexpendable Trust Fund-** is the Moore Sipple Rail Connector. The trust holds federal project funds to ensure the rail operator meets project agreement conditions.

### 2. **General Fund Balance**

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The negative fund balance in the General Fund does not indicate overspent appropriation authority. The General Fund is a statewide fund. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Each agency receives cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency placed in the fund, resulting in negative ending fund balances for each of the two fiscal years ended June 30, 1996 and June 30, 1997.

### 3. **Bond Debt**

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The Highway Revenue Bonds, Series 1987, were issued to refund the Highway Revenue Bonds, Series 1983, the Highway Revenue Bond Anticipation Notes, Series 1985, and to finance the construction, reconstruction and repair of the state's highways. The special revenue bonds debt repayment is funded by gross vehicle weight fees, fuel and gasoline excise and license taxes, and coal severance taxes.

The Highway Revenue Refunding Bonds, Series 1993, were issued to refund a portion of the \$150,000,000 outstanding Series 1987 Highway Revenue Bonds maturing in the years 1998 through 2005.

## Notes to the Financial Schedules

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On June 29, 1995, the department transferred \$39,995,307 from the Highway Special Revenue Fund to the Debt Service Fund. The funds were placed with an escrow agent to provide future debt service payments on the Series 1993 Highway Revenue Refunding Bonds. As a result, \$39,665,000 of the Series 1993 bonds maturing on July 1, 2003 through 2005 are considered legally defeased and the liability for that amount removed from the department's General Long-Term Debt Account Group.

The following information identifies the department's long-term debt balances as of June 30, 1997.

### Outstanding Bond Debt

	<u>Bond Series</u>	<u>Amount Issued</u>	<u>Interest Range (%)</u>	<u>Outstanding at 6/30/97</u>
Highway Revenue Bonds	1987	\$150,000,000	5.5 - 7.2	\$9,795,000
Highway Revenue Refunding Bonds	1993	112,040,000	2.5 - 5.2	<u>65,375,000</u>
Total Outstanding Special Revenue Bond Debt				\$75,170,000

### Bond Debt Payment

Bond activity is recorded in the Debt Service Fund. The fund accounts for the annual debt payments as nonbudgeted activity. Amounts presented by the Debt Service Fund - Schedule of Changes in Fund Balances are essentially bond debt payments. Future payment requirements are as follows:

#### 1987 Highway Revenue Bond

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$9,795,000	\$306,094	\$10,101,094

#### 1993 Highway Revenue Refunding Bonds

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$2,000,000	\$3,112,828	\$5,112,828
1999	10,865,000	2,825,865	13,690,865
2000	11,355,000	2,314,560	13,669,560
2001	11,885,000	1,756,535	13,641,535
2002	12,470,000	1,153,603	13,623,603
2003	13,095,000	514,478	13,609,478
2004	3,705,000	93,551	3,798,551

## Notes to the Financial Schedules

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### Interkap Loan

In June 1997, the Board of Investments provided a loan to the department to finance or refinance the acquisition of vehicles for the State Motor Pool. The loan balance as of June 30, 1997 was \$2,314,475.

#### **4. Intrafund and Interfund Activity**

During the course of normal operations, the department has transactions within funds and between funds to finance operations, provide services, and service debt. The following describes the interfund and intrafund activity for the two fiscal years ending June 30, 1997.

### Equipment Program

The Equipment Program, which is part of the Internal Service Fund, maintains a fleet of equipment and vehicles for use within the department. Costs are recovered through user fees charged to other programs within the department. Charges for services revenue is recorded in the Internal Service Fund for the rent of the equipment and the user program records rent expense. The major programs using equipment include the Maintenance Program, the Construction Program, and the Motor Carrier Services Program.

### Transfers

During fiscal years 1995-96 and 1996-97, \$15,257,853 and \$15,175,841, respectively, was transferred from the Highway Special Revenue Account to the Debt Service Account for bond payments.

Section 15-70-125, MCA, requires all interest and penalties collected be deposited in a non-restricted account in the State Special Revenue Fund. The department later transfers these funds to the Highway Special Revenue Account. During fiscal years 1995-96 and 1996-97, \$12,438,488 and \$13,484,803, respectively, was transferred from the Highway Non-Restricted Account to the Highway Special Revenue Account.



## Notes to the Financial Schedules

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5. **Cash Transfers-Out** The department is funded by gasoline and diesel fuel taxes. While the majority of fuel tax collected is earmarked for the department operations, there are specific fuel tax collections that fund other agency programs. As a result, the department collects Motor Boat, Snowmobile, and Off Road Vehicle Fuel Taxes for the Department of Fish, Wildlife, and Parks. The department also collects Petroleum Storage Tank Cleanup Funds for the Department of Environmental Quality. The Cash Transfers-Out Account records the transfer of tax revenue to these agencies.
6. **Highway Construction Commitments** At June 30, 1997, the department had contractual commitments of approximately \$140,308,718 for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.
7. **Negative Equipment Balance and Nonbudgeted Expenditures and Transfers-Out** In fiscal year 1996-97, the Equipment Program has negative equipment expenditures of \$667,140. The department accrued equipment purchases at fiscal year-end 1995-96. The equipment was received in fiscal year 1996-97 and recorded on the state's Property Accountability Management System.
- The negative nonbudgeted expenditures and Transfers-Out balances in the Internal Service Fund on the Schedules of Changes in Fund Balances in fiscal years 1995-96 and 1996-97, relates to equipment purchased in one fiscal year and received in the subsequent fiscal year.

## **Department Response**

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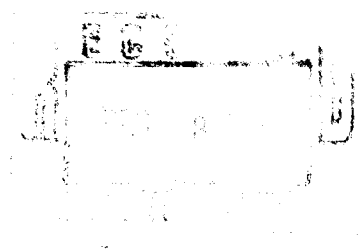
**Montana Department  
of Transportation**

2701 Prospect Avenue  
PO Box 201001  
Helena MT 59620 1001

Marc Racicot, Governor

December 12, 1997

Scott A. Seacat  
Legislative Auditor  
Room 135  
State Capitol  
Helena, MT 59620



**Subject: Department of Transportation's Financial Compliance Audit for Fiscal  
Years 1995-96 and 1996-97.**

I am transmitting our response to the audit performed by your office for the two fiscal  
years ended June 30, 1997.

Thank you for your staff's effort, cooperation, and professionalism during this audit.

If you have any questions concerning our response, please call me at 444-6201.

Marvin Dye  
Director of Transportation

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#### Recommendation #1

We recommend the department develop and implement procedures to:

- A. Monitor all state and federal funds sub-granted to ensure they are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements.
- B. Inform subrecipients of audit requirements for entities receiving federal awards.
- C. Ensure subrecipients are provided with the amount of state and federal funds, federal program name, and catalog of federal domestic assistance number to facilitate compliance with federal regulations.

#### Response

Concur.

The Accounting Services Bureau and Transportation Planning Division began a series of meetings on November 17 to address these issues. The department will review its current procedures regarding subgrants of federal monies and develop policies and procedures to monitor the programs; inform subrecipients of audit requirements; and provide the amount of state and federal funds, federal program name, and catalog of federal domestic assistance number.

Local Government Services (LGS) notifies the department of instances of noncompliance regarding fuel tax allocations as reported by audits of local governments. The audit report indicates the department can use this information to determine if those issues require additional follow up. The department does not have any type of authority to enforce compliance by local governments. Therefore, we rely on the audits conducted thru LGS to ensure compliance. In all cases cited in the report by the LAD regarding noncompliance by local governments the recommendations were implemented. Also, the department informs the local governments that we do not regulate MCA 15-70-101, and do not attempt to interpret the law on behalf of the cities and counties. Enforcement is through these LGS audits and if there are any questions they should consult with the city or county attorney for clarification or interpretation.

The department will work with LGS and determine what additional monitoring procedures are warranted regarding noncompliance. Also, the department will initiate an internal review process regarding the noncompliance issues.

Recommendation #2

We recommend the department revise and implement written procedures for equipment program rate calculations in the Internal Service Fund and maintain documentation which supports the rate calculations.

Response

Concur.

The Accounting Services Bureau and Equipment Bureau are revising the rate structure and procedures for compliance with federal and state requirements and to insure proper charges to the department and construction program when reimbursed through Federal Highway Administration (FHWA). These rates and procedures will be reviewed for propriety and documented. Also, through negotiation with FHWA, the questioned costs will be reimbursed through a rate adjustment when the construction program is charged in future years.

Recommendation #3

We recommend the department report the actual date of receipt of federal funds to the Department of Administration.

Response

Concur.

The department will provide a corrected Fiscal Year End 1997 report based on actual days. We changed our report format to reflect the actual day of receipt rather than estimated.

Recommendation #4

We recommend the department establish controls over outdoor advertising sign permits and fee collection.

Response

Concur.

The Accounting Services Bureau, Right-of-Way Bureau, and Information Services Bureau met on September 4, 1997 to begin developing procedures and design systems changes to input sign data, generate billings, receive payments, and provide monitoring functions for billings and collections. These procedures are being developed to provide an adequate system of internal controls over the Outdoor Advertising Control function.

#### Recommendation #5

We recommend the department:

- A. Issue separate identification numbers to each department employee selling Motor Carrier Services (MCS) permits.
- B. Enforce deposit requirements required in state law.

#### Response

Concur.

A. The district and division offices issue oversize/overweight permits as a service to the industry, using the MCS Automated Permit Program. MCS is not responsible for activities that either occur, or fail to occur in the district and division offices. MCS has twice requested that the district and division offices assign unique badge numbers to each employee who will be issuing permits. The most recent of these requests was made in writing on June 9, 1997. Also, as of November 1997 all offices are complying with this request.

B. The department's policy requires compliance with Section 17-6-105(6), MCA which requires a deposit each day when the total amount of coin and currency exceeds \$100 or total collections exceed \$500. We will continue to enforce this policy through training and monitoring of deposits.

#### Recommendation #6

We recommend the department:

- A. Follow established procedures to properly record revenues and expenditures.
- B. Improve procedures to record expenditures in the proper fiscal year and in the correct program.
- C. Record financial activity for state operations in the proper fund.

#### Response

Concur.

A. Fuel- The department eliminated the stores program and subsequently stopped recording revenue and expenditures for fuel purchased by state agencies and local governments. This decision was based on our interpretation of accounting policy and treatment. This decision was one of many interpretations and rulings the department made regarding accounting policy and treatment when the stores program was eliminated. The fuel situation was brought to our

attention by Legislative Audit Division (LAD) and a ruling was requested from Department of Administration (DOA). Based on that ruling the department has corrected the transactions and procedures. In this regard we believe the department's procedures are adequate in properly recording revenues and expenditures.

A. Capital outlay expenditures- This error resulted due to procedures not being followed at fiscal year end. The department will review its current fiscal year end procedures and implement changes to provide better assurance activity is properly recorded.

B. The department constantly develops and implements procedures to ensure transactions are properly recorded. We will continue to improve procedures. Also, regarding the SBAS/PAMS error that occurred, the department is submitting a memo to DOA requesting the deadline dates for submission of correcting entries be the same for both systems. We believe that the implementation of MTPRRIME will correct this problem.

C. When the Federal Transit Administration program was transferred to the Department of Transportation in 1991, accounting for the General Fund monies received from what is now the Department of Public Health and Human Services(DPHHS) was allowable under Generally Accepted Accounting Principles (GAAP). Because of the statute cited in the recommendation and a change in GAAP, the department is aware that these funds should not be accounted for in an Agency Fund. The Accounting Services Bureau, Budget Office, DPHHS, and DOA are in the process of changing the procedures and accounting to record this financial activity in a Special Revenue Fund. This change will take place in fiscal year 1998.

#### Recommendation #7

We recommend the department:

A. Issue Administrative Rules addressing fuel taxes.

B. Issue Administrative Rules required by section 2-17-423, MCA, or seek legislative changes to allow motor pool regulations to be set forth in state policy.

#### Response

Concur.

A. We are and have been in the process of drafting and revising existing administrative rules to conduct public hearings to repeal, amend and adopt necessary rules in accordance with state laws.

- I. The following Administrative Rules are in draft form for publication in the Montana Administrative Register (MAR) for Notice of Public Hearing(s) in late December 1997 or early 1998.



- a) Special Fuel Users Tax (title 18, section 10) consisting of new rules, amending and/or repealing existing rules;
- b) New rules pertaining to the seizure of improperly imported motor fuels;
- c) New rules of procedures for reviewing motor fuel tax issues and setting up an Administrative Hearing Procedure. No public hearing is contemplated for these procedures.
  - i) The proposed administrative hearing procedures will consider any taxpayer objection to an assessment is under the Administrative Division penalty and interest waiver policy unless the taxpayer specifically requests an informal conference with the division.
  - ii) ARM 18.9.118 allows the overpayment by a distributor in order to prevent tax deficiencies that require penalty and interest assessments. Therefore, the underpayment of taxes or deficiencies, is not considered in the departments penalty and interest waiver criteria.
- d) New rules setting forth procedures for Dealer's of Compressed Natural Gas (CNG) and Liquified Petroleum Gas (LPG).
- e) Alcohol Tax Incentive (title 18, section 9, sub-chapter 6) consisting of new rules, amending and/or repealing existing rules;

II The Accounting Services Bureau has existing procedures permitting write-off of the collection of any tax, penalty or interest due if the department has determined that it is not "cost effective". We are reviewing these procedures and will draft new rules spelling out the criteria for how we make the cost effective decision to write-off tax, penalty or interest.

III. The Administration Division is reviewing all aspects of fuel refunds. We have developed new refund forms and instructions to simplify filing procedures for the taxpayers, reducing forms by combining refund options and closing potential refund loopholes. We plan to educate our customers by making them aware of what they are entitled to before they file for a refund. We plan to rewrite existing refund rules to clarify

the refund qualification and process. We may also propose new legislation regarding certain fuel refunds.

B. The Equipment Bureau prepared legislation for the 1999 session that will allow Motor Pool regulations to be set forth in state policy.

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